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Newsletter for Finance Directors and Researchers in Insurance
This newsletter for finance directors, senior financial managers in insurance companies and researchers in the field of finance is published by The Geneva Association as an information and liaison bulletin to promote knowledge and understanding of financial issues in insurance. It also fosters contacts between finance experts at insurance companies and at universities and other institutions with an interest in insurance. Any suggestions concerning the content or layout of the newsletter are welcome. Please notify us if you are interested in receiving this publication regularly.

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I. EDITORIAL: INSURANCE AND THE CRISIS RESOLUTION

By Patrick M. Liedtke[*]

As the final crisis that was triggered two years ago in the subprime markets in the U.S. seems to move towards its resolution phase, the question as to what the post-crisis environment will look like is on the minds of many politicians, business leaders and experts from international institutions. A myriad of potential solutions and remedies have been put forward by many institutions in order to avoid a similar disaster in the future in global financial markets and the world economy. Most proposals for reform centre around the role of banks whose business models, processes and the behaviour of their key actors turned this crisis into the worst financial disaster since the Second World War.[1]

Observers[2] agree that the insurance sector has not been the source of financial instability nor did its companies—as far as the insurance activity was not part of a financial conglomerate, where other businesses like financial guarantees or leveraged banking, etc. were carried out (cf. AIG or Fortis)—worsen the crisis.[3] As it turned out, the insurance business model—despite some painful losses that many companies suffered in the wake of the crisis—is a very resilient one. However, insurance is part of the financial services field and a large and important investor in many markets. Any reforms of the framework under which financial services are conducted will affect the sector. It is quite understandable and logical that a crisis of the magnitude of this one will lead to sweeping changes. Anything else would be grossly negligent behaviour on the part of the architects and guardians of global financial stability. At the same time, it is very important:

a) to specifically target the problematic elements of the arrangements that either directly lead to the crisis or that worsened its consequences; and,
b) to avoid detrimental effects on activities that are functioning efficiently, that are not major risk factors and that do not aggravate the consequences of a crisis in a substantial way.

A shotgun approach to regulation has never been the most optimal solution to any crisis and its negative direct and indirect effects for economic performance and future growth can turn out to be substantial. As always, a balanced and informed approach is required. In its 2 April 2009 letter[4] to the Finance Ministers of the G-20 governments, The Geneva Association outlined some areas that need to be addressed by the authorities for the appropriate organisation of the framework within which the insurance industry operates. It is important to note that the insurance sector has a strong interest in securing an effective and efficient financial system. As the holder of approximately 11 per cent of world assets, it suffers directly when markets become unstable and decline.

For insurance markets to operate in a fair, efficient and sustainable manner, it is of crucial importance that governments and central banks succeed not only in fully reviving the functioning of capital markets, but that they ensure their continued stable operation long into the future. It is crucial that they introduce regulatory measures that take into account insurance's business model, and that secure incentives for sound risk and capital management maintain a level playing field—within and among related sectors.

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[1] See also the opening of the November 2008 publication of the World Bank (2008): *Weathering the Storm: Economic Policy Responses to the Financial Crisis*.

[2] See in particular the various publications from the insurance supervisory authorities and (on a global level) the International Association of Insurance Supervisors' (IAIS), as well as the analysis by rating agencies.

[3] The kind of impact observed at some financial institutions where the core insurance business was complemented through other financial services activities or where insurance is part of other (mainly banking) financial operations has been ruinous indeed. Most prominently, AIG and Fortis reported massive losses occurring on financial products (mainly CDS and other financial guarantees) and banking activities and ultimately had to be saved through government intervention. Interestingly enough, their insurance operations have repeatedly been reported as sound by the supervisory authorities. The soundness of the insurance operations also played a key role for the structuring of the government rescue and the subsequent (expected) sale of the operations (or parts thereof).

[4] This letter is available on The Geneva Association website under the special Credit Crisis Section together with other pertinent materials. Visit *www.genevaassociation.org/Home/Credit_Crisis.aspx*.

In The Geneva Association letter, four specific areas are addressed:

1. Financial Stability and Insurance

- Restoring stability and consumer confidence remains a most critical issue to address.
- Transnational coordination is needed and an economic risk-based framework should be applied to all institutions.
- Governments need to be fully aware of the wider market impact of their interventions, which should be minimal.

2. Supervision and Regulation

- For the supervisory framework and financial regulation, the differences between insurance and other financial services providers need to be taken into account.
- The future supervisory architecture should have balanced objectives and be built on a sound foundation of national regulation.
- For the insurance sector, one of the main obstacles to international regulatory convergence is the fragmented international supervisory landscape.
- Regulatory reform must be focused, measured and considered, avoiding pro-cyclicality. Excessive capital requirements are as dangerous and inefficient as insufficient capital requirements.
- A close and continuing dialogue between governments, regulators and the insurance industry on proposals for regulatory reform is of central importance.

3. Risk Management

- The crisis has reinforced the existing importance of strong and independent risk management within insurance companies.
- An holistic view should encompass all risks and all parts of a group. In this regard integrated internal risk controls and enterprise risk management systems have to be promoted but also regularly challenged and examined.
- A risk management function independent from Profit and Loss (P&L) responsibility is essential to ensure effective internal risk governance.
- There needs to be transparency of all risks, financial and non-financial. This is particularly true for securitisation in order to revive the market.
- Sustainable Asset-Liability-Management is a core component of sound risk management in insurance and should be promoted; regulatory incentives should reinforce this.
- Risk concentrations and large counterparty risks should continue to be vigorously monitored.
- Internal models are indispensable tools for insurers and reinsurers to determine capital required and support investment and underwriting decisions. Internal models should be continuously updated to reflect changes in the risk environment and best practices. Models must be paired with sound management judgement and complemented by stress testing and scenario thinking.
- The insurance industry should put more emphasis on its monitoring of liquidity risks. Liquidity management has to be strengthened as a complement to capital adequacy.
- The experience of insurers in managing tail risks should be leveraged to other elements of the financial services sector, with special emphasis on stress tests and scenario thinking, complementing integrated risk modelling.

4. Accounting and Value Measurement

- Transparency in accounting practices is crucial and market-based valuation remains the principle that underpins financial information and management steering. It is an effective tool in delivering necessary information to investors.
- However, the limitation of accounting systems that rely entirely on market information for valuation purposes has to be recognised. In times of extreme illiquidity and distressed markets, where prices are not observable or are only randomly observable with few transactions not

representing an objective value, other valuation approaches may have to be used when they better represent the economic reality.

- Keeping in mind that insurers and reinsurers hold many assets to maturity, flexible supervisory practices are therefore vital to avoid pro-cyclicality and the exacerbation of an already difficult situation.
- The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) must step up their efforts to re-examine the principles for valuing financial assets and liabilities in illiquid and distressed markets and consider different accounting mechanisms which would be more in line with other activities to adequately represent the performance, restore confidence on accounting figures, and limit volatility in the markets.

Obviously, the crisis resolution will require careful, conscientious and prudent action. It is very important that the future structures respond during both normal times and times of stress. As insurance is a long-term business that depends like few others on efficient markets, prudent risk taking by all (including governments) and the availability to diversify across regions and sectors as well as over time, it has more at stake than many other industries. As the sector has shown over the past months, it is ready to play an active role in discussions on how to frame future regulatory and supervisory structures.

A lot of the confidence in the banking sector and the financial system in general that has been lost over the past two years can only be restored if the resulting structure is efficient, fair and sustainable. The above list of points should help this process and we hope that they are taken into consideration by governments, their ministries, central banks and the institutions that guard financial stability nationally and internationally.

II. THE FINANCIAL CRISIS AND INSURANCE: LESSONS LEARNED AND HOW CEIOPS IS IMPLEMENTING THEM WITHIN THE SOLVENCY II PROJECT

By Carlos Montalvo Rebuelta[*]

“Experience is the name we give to our mistakes” (Oscar Wilde)

Introduction

The crisis we are still in originated and developed in the banking sector and subsequently spread to the insurance sector. What started in 2007 as a subprime crisis, affecting insurers mainly in the area of monolines, turned in 2008 into a global crisis of unprecedented effects, first for the financial sector, spreading afterwards to the rest of the economy.

Such a situation has affected insurers, but to a lesser extent, when compared with other actors within the financial sector, namely banks. This is, among other reasons, due to the fact that the insurance sector entered the crisis from a position of strength, with record solvency ratios, and a sound portfolio of investments, already shaped by lessons it had drawn from a similar situation it faced in 2002 and 2003.

The insurance sector found itself in a better position to face the crisis, but still 2008 and 2009 have brought about a deterioration in solvency positions and a reduction of profits, as both the assets and liabilities side of the business have been affected, with some risks that may affect the future solvency situation of insurers, for example the low interest rates which we are currently facing. Steps have to be taken to ensure future sustainability of the insurance business, in a competitive environment.

Solvency II is a project that aims at introducing and developing a risk-oriented supervisory framework for the insurance sector, in the sense that undertakings will have to hold capital on the basis of the risks they are facing and the way such risks are managed by the undertaking. In such a framework, the appropriate treatment of risk becomes a core issue for the soundness and effectiveness of the whole system.

[*] Secretary General, CEIOPS.

CEIOPS has developed its advice on Solvency II over the past five years. Ongoing field testing has shown that the overall architecture of the future system is a sound one. However, in the light of the unprecedented crisis, with its spill-over effects for all financial sectors, CEIOPS launched a "lessons to be learned" project in autumn 2008. Its working groups have looked at the current crisis, analysed different aspects relating to the insurance sector and identified potential areas for improvement to ensure that Solvency II can operate in both normal and stressed times. The main findings and possible conclusions for Levels 2 and 3 are reflected in a report published in March 2009. This text summarises the report and tries to go further, at least from an institutional point of view, by looking at the future changes in the structure of financial supervision at EU level.

Our main lesson of the current events is that Solvency II must be implemented. In crisis situations, supervisors have an even stronger need for harmonised and risk-oriented information on the financial soundness of the insurance entities we supervise. *Harmonised*, because that increases transparency and consumer protection. At the crossroads we are at, such transparency is clearly lacking and comparing insurers' solvency ratios is a tricky exercise. The economic valuation principles underlying Solvency II will largely resolve such inconsistencies. *Risk-oriented*, because that allows us to make meaningful inferences with respect to insurers' available financial resources relative to what they actually need in order to protect their policyholders.

To better analyse the lessons that need to be taken on board for the Solvency II project, we will follow an approach that mirrors the Pillar structure of Solvency II: Pillar 1 (quantitative requirements), Pillar 2 (qualitative requirements and governance-related issues) and Pillar 3 (transparency and disclosure). The risk profile of a given undertaking should take into account both the internal and external risks that it faces, whether quantifiable or not. In order to do so, an appropriate interaction between Pillar 1, Pillar 2 (to incorporate those that, in principle, are deemed as non-quantifiable, e.g. risks arising from strategic decisions or reputational risk) and Pillar 3 (directly linked to one of the main drivers of any crisis, namely market confidence) needs to be in place.

Lessons from Pillar 1

Perfect solvency regimes do not exist, if only for the simple reason that any form of regulation creates new distortions in itself. In a rapidly evolving sector like the financial sector, there will be a recurrent demand for refinements at levels 2 and 3 of the Lamfalussy structure. The crisis has highlighted the need for a further refinement of the existing Solvency II calibrations, both at modular and sub-modular levels. For instance, in light of the highly correlated nature of current stress events, we may want to strengthen the dependency structures underlying the standard formula. Also, developments in various asset classes have provided fresh insights on the amount of volatility the system will have to absorb and the resulting calibration of the market risk module. Finally, experience has taught us that in real crisis situations, only high quality capital elements can truly be a first line of defence in the sense of absorbing losses without taking the insurer into full bankruptcy.

Regarding personal funds and its quality, the crisis has shown us that capital quality matters…when you really need the capital. Capital requirements's objective is the absorption of losses and we need to look at the banking experience to learn from it and see how markets decided that not all capital (not even all Tier 1 capital) had the same quality and reacted accordingly by asking for capital above the regulatory requirements. Currently, the Basel Committee has stated that "The key building blocks of the Committee's strategy are the following: […]

- enhancing the quality of Tier 1 capital;
- building additional shock absorbers into the capital framework that can be drawn upon during periods of stress and dampen pro-cyclicality…"

and we should aim for a consistent approach, looking at own funds and their real loss absorbing capacity.

The calculation of the SCR (Solvency Capital Requirement) aims at quantifying risks and allocating a capital charge to them, consistent with a confidence level of 99.5 per cent. The directive has identified some concrete modules and sub-modules to reflect such risks. Different risks should be reviewed in the light of the existing turmoil, as lessons can be drawn to help improve the final outcome of Solvency II.

Among these risks to be reviewed, credit risk, market risk, concentration risks, or operational risks are to be included.

- Credit risk: affecting both the asset and liability side of insurers's balance sheet, the main issue to be considered in this area is linked to the need to guarantee that an effective risk transfer has occurred. There is clear room for ART (Alternative Risk Transfer) mechanisms in Solvency II, but the transfer of risk has to be an effective one.
- Market risk: right calibrations, correlations and further refining are needed. The crisis has shown that the treatment of some assets, for example Asset-Backed Securities (ABS), was not prudent enough (a capital charge of 45 per cent was tested in QIS4), so CEIOPS is working to make sure that this is corrected, consistent with the 99.5 per cent confidence level settled in the directive.
- Operational risk: many players have identified this as the main risk during the current crisis, and Solvency II is perhaps not providing sufficient incentives for insurers to improve in this core area. At the same time, the treatment in the standard formula, with a 30 per cent cap, should have to be reconsidered to be consistent with the aforementioned idea and with the setting of the right incentives to move ahead in the area of internal models.

Lessons from Pillar 2

As in the financial sector at large, governance, risk management, and internal controls in the insurance sector need to be strengthened. These elements are key to Solvency II's underlying philosophy of a risk-sensitive system, where the ultimate responsibility for risk identification, monitoring and steering lies with the firm's management, thus requiring of them an understanding of the rationale underlying either the standard formula or internal models. Solvency II is not just about risk measurement and quantification; rather it is about effective governance and risk management.

Again, within this overall architecture, the crisis has highlighted some elements that may need to be reinforced. Also, in the insurance sector, we have observed insurers investing in structured products they did not sufficiently understand. Effective risk management requires a strong emphasis on own risk assessment, for example where the use of external ratings by credit rating agencies is contemplated. Likewise, liquidity risks will need more attention, to be followed by a higher reporting frequency in stressed situations. For the application of internal models, key success factors relate to model governance (checks and balances, proper documentation) and the involvement of, as well as proper understanding and steering by, board and senior management, much more than fine-tuning the ultimate risk metrics.

Lessons from Pillar 3

One of the main drivers of the current crisis has been directly linked to the combination of lack of disclosure and inappropriate valuation of complex products. The principle of not buying or selling an asset you cannot value or understand was constantly left aside. Reliance on external ratings, inappropriate valuation techniques, wrong remuneration incentives could be named as drivers of this trend.

Valuation is of utmost importance, not just for accounting reasons, but also for risk management purposes or the calculation of the level of personal funds (as it should be embedded to decisions on whether to invest or not in an asset), the Asset Liability Management (ALM) policy of an undertaking (e.g. using Special Purpose Vehicles (SPVs) to match durations) and its overall investment policy. Inadequate valuation has been linked to overpayments and underestimation of underlying risks.

CEIOPS considers that the economic valuation of assets and liabilities should be considered as valid and necessary for a project like Solvency II. It welcomes additional work to be done on valuation by the IASB and would like solutions to be adopted to bring consistency within the financial sector.

During the current crisis, markets' reactions regarding insurers has shown that there is a lack of clarity, understanding and comparability of the financial situation to these undertakings. The consequence has been a reduction in their share price, due, amongst other things, to the perception that something is hidden or unclear. It has additional negative effects regarding large cross-border groups, as they will have to deal with different requests that are neither consistent nor uniform, while at the same time producing internal information.

CEIOPS has committed to the highest political levels to come up with common definitions and formats that would be implemented within the new Solvency II regime requirements. Consistency among sectors is another goal, so joint work and appropriate coordination with the Committee of European Banking Supervisors (CEBS) will be needed.

Internal models

Put into question in the banking sector, we deem internal models to be a cornerstone in a risk-oriented system like Solvency II. The Solvency II approach to internal models is more advanced and comprehensive than the banking approach and should provide a framework that improves management and understanding of risk in a sensible manner, with right incentives to go towards full modelling.

Still, there is significant room for improvement in areas such as quality of data or appropriateness of testing. Supervisors' key areas of concern are the challenging of the results of models, the use of model results in management decisions and the understanding of the models and their outcomes by the people making the decisions within companies.

Holistic approach to supervision and regulation

We need to rethink the scope of regulation and supervision, focusing more on consolidated entities rather than only on solo entities. Solvency II already puts more emphasis on group-wide supervision. Within this context, better functioning of supervision at a group level, and better cooperation among supervisors (including timely exchange of relevant information) is urgently needed. When taxpayers' money is at risk, successful cross-border rescue operations by national authorities need to be built upon a joint assessment of the risk situation as carried out by an existing supervisory body.

We should take a similarly holistic approach to insurers' exposures to special purpose vehicles such as off-balance value-in-force securitisations, in order to provide supervisors with a consolidated perspective on the risk to which policyholders may be exposed. Where insurers apply complex holding structures, possibly involving non-regulated entities, supervisory powers should also include monitoring, data collection and intervention at the holding level. Mirroring the Capital Requirement Directive (CRD) amendment with respect to own retentions of banking risk securitisations, we may also want to contemplate a minimum risk retention requirement for insurance companies that originate insurance risk securitisations.

The aforementioned idea of consistency in the regulatory treatment should also be extended to the treatment of Credit Default Swaps (CDS), as it would have a positive impact in avoiding regulatory arbitration between banking and insurance. The principle of substance over form should apply to CDS as compared to alternative mechanisms such as credit insurance and a similar regulatory treatment, in particular regarding capital charges, should be introduced.

The crisis has also raised the issue of pro-cyclicality of regulatory regimes. The potential for excessive pro-cyclicality of solvency requirements is clearly less pronounced in insurance than in banking. One main driver of cyclicality is credit risk, which is more prominent in the risk profile of a typical bank than in a typical insurance company. Another important driver is market risk. Any "point-in-time" assessment of an insurer's actual solvency position will therefore also entail some element of cyclicality, and it is important that the Pillar 1 (SCR) assessment is complemented by a rigorous stress testing requirement under Pillar 2 (Supervisory Review Process). For an inherently cyclical line of business such as credit insurance, we may want to think about a form of through-the-cycle ("dynamic") reserving, while at the same time respecting the need for transparency of any such equalisation mechanism.

Several high-level work streams outside the Solvency II project have dealt with the lessons to be learned from the crisis, like the Financial Stability Forum (FSF) and G-20 recommendations, various EFC Working Groups, or the expected follow-up to the de Larosière report. CEIOPS together with its sister committees has in the past and continues in the present to contribute to these work streams. To ensure consistency between financial sectors (for example, with the revision of the CRD), additional conclusions—for example on pro-cyclicality or on remuneration as a long-term rather than short-term incentive for senior management—will have to be further analysed from a cross-sectoral view point.

Financial innovation

One of the main aspects of the financial crisis is the treatment of financial innovation and its regulatory treatment. The question we need to ask ourselves is twofold: first, is financial innovation still needed, and secondly, can Solvency II adequately deal with financial innovation, i.e. does it accurately assess the risks involved?

Regarding the first question, CEIOPS has recently issued a paper dealing with Insurance Linked Securitisations (ILS) and recognises room for it as an Alternative Risk Transfer (ART) mechanism, whilst at the same time drawing particular attention to areas such as pricing or data imputing.

On the second one, the most important aspect for CEIOPS to look at is the impact on the insurer's risk profile: does the securitisation come with a clean break or is implicit or explicit support still needed? What is the operational risk involved? What incentives does this kind of innovation give for individual companies and for the market as a whole? Are there other risks? Do we capture these risks appropriately under Pillar 1? Does Pillar 2 consider the management and complexities of some of these products? The response given to all this questions should ultimately be consistent with another lesson derived from the crisis that has already been mentioned in this paper: don't buy or sell an asset you cannot understand or value.

What next? de Larosière report and follow up

As part of the changes that Council and Commission, on the basis of the de Larosière report, are considering for improving financial supervision at the macro- and micro-levels, three Authorities will be created based upon the existing Level 3 Committees, together with a European Systemic Risk Board (ESRB) that will allow for a better link between micro- and macro-prudential supervision.

The main message to be sent is support towards the approach chosen and willingness to contribute to the process.

The new Insurance and Occupational Pensions Authority (EIOPA) will face new challenges and tasks, and will require additional powers and resources to deal with them, as it has up to now dealt with the tasks it had been mandated to undertake. Binding powers will be given, in areas such as mediation and the issuance of technical standards. A single European Rulebook is foreseen and we can only see positive points to the very ambitious idea underlying this.

All this is good news, provided that two outstanding areas are dealt with appropriately, as they are of critical importance to the 3L3 Committees, namely:

- <u>Independence arrangements</u> relating to the financial and operational structure of the European System of Accounts (ESAs); and,
- <u>Governance</u> of the ESAs as regards their composition and operational structure and accountability.

It is the 3L3 Committees' view that independence *vis-à-vis* the EU political institutions must be the cornerstone of any future supervisory framework as it is fundamental to offering objective technical input to the Commission. In line with this evolutionary approach, the 3L3 Committees welcome a governance structure that builds upon their current structures and is lead by an independent Chair and Board.

A FIRM FOUNDATION: HOW INSURANCE SUPPORTS THE NEW YORK ECONOMY

The Insurance Information Institute (I.I.I.) has just updated the online edition of *A Firm Foundation: How Insurance Supports the Economy* (*www.iii.org/economics*), which shows the myriad ways that insurers contribute to the national and state economies—from offering employment and fueling the capital markets, to defraying the cost of catastrophes, to providing financial security and income to individuals and businesses through the payment of claims.

The paper also details the insurance industry's role as a key player in the state of New York. It includes charts on gross State product, employment, premiums, and many other factors. The publication can be accessed on the I.I.I. website at *www2.iii.org/economics/toc/*.

III. CONSEQUENCES OF THE FINANCIAL CRISIS ON THE IASB INSURANCE PROJECT

By Joachim Kölschbach and Stefan Engeländer [*]

Introduction

Accounting, accounting standards and accounting standard setters, namely the IASB have been in the spotlight during the financial crisis. The IASB has not included its project on Insurance Contracts in the list of its responses to the financial crises[5]—and it was not asked to do so e.g. by the G-20[6]. However, it is perhaps not unfair to state that some decisions made on this project[7] over the last months have been influenced by the conclusions and experience in the context of the financial crisis, especially the criticism of models and their reliability.

One of the most controversial issues so far has been the treatment of initial gains, which result from a comparison of premiums an insurer receives and recognises as income with the value of the recognised liability under the same contract. The IASB now holds the view—and this is a change from the proposals in the Discussion Paper published in 2007[8]—that the liability at inception should be measured by reference to the premium and therefore at no moment should gain be recognised in the profit-or-loss-account, i.e. a Customer Consideration Approach as basis of measurement. Even if not explicitly stated, we assume that the IASB made that decision in order to respond to concerns about the reliability of accounts that are purely based on modelled fair values. It is actually reasoned by reference to the Revenue Recognition Project, where initial gains are rejected due to the complexity and risk of error inherent in models used to estimate current exit values.[9] Even if insurance has not been the primary focus of that project, it addresses similar issues found in insurance contracts if understood as a performance obligation, specifically the provision of services, rather than simply a kind of financial instrument.

Furthermore, the IASB moved to substitute the Current Exit Value with a more realistic value reflecting that the reporting entity typically satisfies the performance obligation (here referred to as Current Fulfillment Value, although that term was never unanimously defined), mainly in relation to the current revision of IAS 37.[10] The Current Exit Value is what standard setters expect to be the Fair Value[11] and describes a value arising from the assumption the obligation by a fictitious acquirer. The move left any measurement of required consideration in form of required profits, portfolio specific cash flows (e.g. claims ratio), and effects resulting from the financial environment (e.g. discount rates) unchanged. Exclusively, necessarily entity-specific cash flows, such as the cost of contract administration, customer servicing and the specific claims settlement approach, are modified in relation to the Current Exit Value. Already the Revenue Recognition Project refers to a Current Exit Value regarding service contracts as being counterintuitive[12] and the revision of IAS 37 proposes to use the entity-specific value in absence of efficient markets.[13]

In the following paper we particularly consider the question of subsequent measurement as a continuation of our earlier thoughts on a reliable fair value.[14] This is particularly relevant in the context

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[5] http://www.iasb.org/About+Us/About+the+IASB/Response+to+the+credit+crisis.htm.

[6] G20 Working Group 1, *Enhancing Sound Regulation and Strengthening Transparency, Final Report,* 25 March 2009, Recommendations 13, 22 and 23.

[7] For information on the current status see: http://www.iasb.org/Current+Projects/IASB+Projects/Insurance+Contracts/Insurance+Contracts.htm.

[8] See IASB Discussion Paper *Preliminary Views on Insurance Contracts*, and Duverne/Le Douit in *The Geneva Papers* 2008, 33 (1): 41-53.

[9] See Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers,* 5,21 and 5.24.

[10] For information on the current status see: http://www.iasb.org/Current+Projects/IASB+Projects/Liabilities/Liabilities.htm.

[11] IASB Exposure Draft ED/2009/5 Fair Value Measurement, paragraph 1.

[12] See IASB Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers,* 5.22.

[13] IASB Meeting Summary April 2009, www.iasb.org/Current+Projects/IASB+Projects/Liabilities/Meeting+Summaries+and+Observer+Notes/IASB+April+2009.htm

[14] Engeländer/Kölschbach in *The Geneva Papers* 2006, 31 (512-527).

of the very long-term obligations of insurance, where a calculation is made at the start and then reduces in relevance. We propose a subsequent measurement approach that combines both the current information of a prospective Fulfilment Value with the reliability and profit recognition patterns of a Customer Consideration approach.

Combination of Current Fulfilment Value and Customer Consideration Approach

While the Current Fulfilment Value is a prospective fresh start approach, the Customer Consideration Approach is described as reverting to historic information and is not entirely a fresh start approach. Like the Fair Value, the Current Fulfilment Value might include some retrospective and starting elements that are not new, but those elements are applied to eliminate subjectivity when non-observable information is needed.[15] That is merely measurement guidance to achieve robustness, but not a conceptual requirement. It assumes that the past situation is the best available information about the current position in absence of up-to-date actual market information. Therefore, Fair Value and Current Fulfilment Value remain conceptually prospective fresh start approaches, even if they consider past data to a limited extent.

The Customer Consideration Approach, on the other hand, introduces that reflection of past data into the concept itself. In the absence of suitable current market information, the Fair Value, the Current Fulfilment Value and the Customer Consideration Approach might result in the same outcome. One may believe that it is more reliable to directly use the Customer Consideration Approach for contracts with the least significant servicing elements, since in those cases a transfer is very unusual or even impossible and consequently relevant market information is not available in general or at least is practically irrelevant. The Customer Consideration Approach would consequently be the more reliable measurement methodology in those cases, which are, in practice, the vast majority of insurance contracts.

Consequently, the IASB is currently discussing the application of the Customer Consideration Approach in profitable insurance contracts, as proposed in other performance obligations in the Revenue Recognition Project. In case of onerous contracts, the Current Fulfilment Value based on the three building blocks is to be reported as the minimum amount. Actually, the three building blocks are also the underlying concept of the Revenue Recognition Project, where the margin is determined as the residuum between the current estimate of cash flows and the customer consideration, if any. That element provides the reliability of an objective measurement. The requirement to apply the three building blocks stringently also in the case of onerous contracts ensures the required realism. Such an approach makes use of any available knowledge about any potential loss without reporting gains based on models. Further, it enhances transparency and avoids complexity as long as possible.

Projects could be more realistic if instead of a simplified version of the three building blocks of the Revenue Recognition Project, a sophisticated approach as discussed currently in the revision of IAS 37 is applied for onerous contracts. The preliminary view requires, at least in case of risky obligations such as insurance contracts, a suitable margin which ensures that an adequate reflection of required risk-adequate profit is recognised throughout the contract term, even in the case of onerous contracts.

A further sophistication of the measurement objective in the revision of IAS 37 could consist in enhancing realism without reducing objectivity, rather than focusing on specific ways to relieve oneself of an obligation through realistically available means. Three alternatives exist in this regard: transferring to an active market, settling directly with the customer or meeting the performance obligation. Such an approach would also help alleviate concerns regarding the disappearance of active markets.

Customer Consideration in subsequent measurement

Principally, the subsequent measurement in current fresh start approaches is identical to the initial measurement. However, introducing retrospective elements for improvement of objectivity and verifiability causes similar issues in the case of the Customer Consideration Approach: how to continue an initial calibration, especially a calibration to the initial consideration received or paid? Any calibration at inception is done on purpose, since there is no objectively determinable distinct alternative value.

15 See IAS 39.AG76 and AG76A.

The same is true for subsequent measurement. Especially in case of very long-term obligations, a calibration at initial measurement relevancies in wane, if subsequently measurement of lacking objectivity can be applied. To be useful, any calibration technique needs to be continued at a subsequent measurement date, until the conditions that would not require a calibration in the case of initial measurement are met. In case of long duration performance obligations provided by an important industry like insurance, the recommendations to enhance objectivity, transparency and verifiability and reducing complexity should be achieved specifically in subsequent measurements, applicable often for decades, rather than only in the very first year during initial measurement.

In absence of paid consideration, the equivalent alternative for a calibration basis could be a “projected book value”. The projected book value is the amount assumed at the end of the prior period, to be reported at the end of the current period, including the projected percentage-of-completion revenue (with the inherent profit), based on assumptions of the prior period. Any choice of assumptions in the measurement at the end of the current period should be disciplined by that projected book value as the choice of initial assumptions is disciplined by the consideration received resulting in a respectively determined margin. The original consideration received is the root of the projected book value determined during the calibration process. If that is also applied to the margins under a prospective fresh start approach to improve objectivity and verifiability, the prospective character is only limited by the need to compare the current estimate of liability with the prior projected book value—any other historic value does not matter. As in the case of initial measurement, the prospectively determined Current Fulfilment Value is always the minimum amount of liability, i.e. using margins as required under the proposals for revision of IAS 37. It is important that the calibration approach be applied to the entire net contract asset or net contract liability as required, as in the case of the Revenue Recognition Project.

To comply with the concept, changes of individual parameters of the applied valuation technique should not affect the entire value. That applies even if certain parameters can be determined more objectively than others. To achieve objectivity, a significant degree of indeterminacy of the entire asset or liability should not allow recognising gains or losses from changing isolated observable assumptions within the measurement technique applied if those changes are within the range of the overall indeterminacy of the asset or liability. That is relevant in a situation where one assumption is changed, but all other, non-observable assumptions could be chosen reasonably in a manner that the outcome equals the projected book value. The entire value after the change of one single assumption is actually not more reliable than the projected book value and consequently the projected book value should be reported since there is no better value available. The measurement technique and the split of measurement in a set of assumptions and parts of the value should especially not influence the outcome.

However, that approach may cause issues if the contracts include components that can be matched with actively traded items whose effect on cash flows is identifiable separately. It might be suitable to provide an accounting option at outset of the contract to exclude those components which are actually separable and traded in active markets from the calibration approach, i.e. to apply the calibration only to the measurement of components that cannot be matched. That would hardly apply to performance obligations, but might apply to embedded financial instruments. If they could be completely matched in reality, since they are separable and traded in active markets, their initial market price should be considered separately at outset and any effect of changing market prices should be considered in subsequent measurement fully affecting the profit-or-loss-account. That is necessary to avoid an accounting mismatch if the entity actually matches the component.

Conclusion

The IASB is currently making significant progress on its project on insurance contracts accounting. By referring to other projects such as Revenue Recognition and the review of IAS 37 on (uncertain) liabilities in general, it is not only striving for cross-industry comparability, but also for objectivity and reliability, in an underlying approach applied not only to the initial, but also the subsequent measurement of insurance liabilities. However, the focus of the IASB in response to the crisis is currently on issues relating to financial instruments, consolidation and de-recognition. At this point in time, it is not possible to make an overall and in depth evaluation of the impact those factors will have on insurance.

IV. RESTORING TRUST IN THE FINANCIAL MARKETS—TIME TO THINK SUSTAINABLY

By Kai-Uwe Schanz[*]

In the wake of the subprime crisis, the public's faith in financial markets has been massively shaken. The disastrous global ramifications of what started as a regional mortgage crisis have brought about the most severe economic calamity in the last 80 years. What went wrong? And what needs to be done to minimise the likelihood of such a cataclysm repeating?

Against this backdrop, we have interviewed a number of senior corporate and non-corporate finance experts, including prominent insurance figures such as Christine Bosse, CEO of TrygVesta, a leading Scandinavian insurer; George Stansfield, the Group General Counsel of AXA; and Patrick M. Liedtke, Secretary General and Managing Director of The Geneva Association. In addition, we have spoken to Peter Voser, Group CEO of Shell; Bill Emmott, former Chief Editor, The Economist; Klaus Wellershoff, former Chief Economist of UBS; and Professor Ernst Fehr, a renowned academic from the University of Zurich.

The findings from these interviews will enter the discussions at the 10th International Sustainability Leadership Symposium, to be held in Rueschlikon/Zurich on 10-11 September 2009 (*http://www.sustainability-zurich.org/en/p67000279.html*).

What went wrong?

Severely flawed risk management practices
The financial crisis has exposed serious flaws in corporate risk management. Stress testing was not properly implemented, particularly in banking. Further, more often than not, quantitative models were allowed to supersede managerial judgment, experience and intuition, says *Stansfield*. The inability of traditional risk models such as Value-at-Risk to anticipate extreme scenarios turned out to be one of the biggest flaws, he adds. *Liedtke* feels that the insurance industry has done relatively well, based on its long-standing familiarity with scenarios and a good understanding of model limitations.

Risk grossly mispriced
Risk has been grossly mispriced by markets. In the absence of effective risk management tools, market participants were complacent about risk and fooled by securitisation and its promise to disperse risk, says *Emmott*. *Stansfield* adds that securitisation has caused a severe misalignment between risk origination and absorption. The originators often had no or far too little skin in the game, he says. The consequences: reckless behaviour, very poor underwriting of risk, and perverse economic incentives in many cases. *Voser* points out that flawed risk models and ratings contributed to a severe mispricing of the structured securities created through the originate-and-distribute model. He also emphasises the disastrous effects of the complexities of the securitisation process. End investors in the structured securities were faced with major information asymmetries. This led to a financial panic and illiquidity of whole asset classes that destroyed much more financial value than the underlying losses in the U.S. housing market, he believes. *Wellershoff* suggests that the current crisis is the result of collective exuberance and exaggeration as consumers, companies and policy-makers were lured to believe that high growth combined with low inflation would be a stable and sustainable paradigm for the future. This belief ultimately led to a monetary policy which has proven to be excessively aggressive and lax.

Corporate business models went astray
Stansfield believes that excessive leverage was primarily driven by financial markets' seemingly unlimited appetite for securitised products coupled with the exponential growth of other non-bank sources of credit over the past years. *Emmott* goes one step back and highlights the profitability problems in retail banking and insurance due to commoditisation. To address this long-standing issue, he says, banks and insurers did accelerate financial innovation, took on increased risk and, ultimately, deviated from their traditional business model. *Liedtke* is sceptical about putting the blame on business models and corporate strategies as such. In his view, market participants were simply exploiting the opportunities of cheap financing, changes in regulation and financial innovation, whilst ignoring tail risk, a well-known notion in the insurance industry, but grossly neglected in banking.

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Deficient corporate governance practices
Voser believes that the crisis was triggered by a systemic failure of checks and balances and a collective, single-minded focus on short-term success. *Stansfield* adds that in certain cases, boards were simply too close to their CEOs. He also considers the concept of independent directors as being ill-defined in certain cases and feels that the independence criteria are, in many cases, overly technical and have the perverse effect of disqualifying people with deep industry experience who are often best placed to assess risks in complex institutions and protect shareholder interests. *Liedtke* concurs and stresses the importance of a high level of business and industry understanding, and more specifically familiarity with the business, for any board member to perform his or her role.

Overwhelmed regulators and policy-makers
Emmott believes that regulation is a constant battle between regulators and financial innovators. For example, banks responded to tighter capital requirements by resorting to huge and non-transparent off-balance-sheet vehicles which masked their true risk exposure. This, plus securitisation, meant that nobody knew where the risk went, he says. The level of ignorance was compounded by the fact that a number of truly global institutions were still regulated largely on a national basis and, therefore, inadequately, adds *Stansfield*.

The future of finance: towards a sustainable paradigm

Transparency and disclosure need to be enhanced
Emmott believes that improvements in transparency are of key importance to making market participants act more sustainably and rendering markets less vulnerable to shocks and dislocations. In his view, enhancing disclosure has both a qualitative (for example, with respect to complex structured products) and a quantitative dimension (for example, with respect to derivatives traded “Over-the-Counter” (OTC)). *Fehr* disagrees: excessive risk taking must be constrained, he says, pointing to the pharmaceutical industry where entrepreneurial freedom is curtailed due to human health considerations—without choking the market mechanism as such or stifling innovation. *Bosse* also feels that even though the financial markets generally work well and, over time, excesses in either direction are corrected, the lessons from the years of easy finance (2002-2007) suggest the need for tighter regulation. *Stansfield* sees a specific need for regulatory action in the area of securitisation, where the interests of originators and risk-takers need to be more properly aligned in order to avoid excesses such as in U.S. subprime lending. On accounting standards, *Liedtke* warns that a non reflected application of fair value accounting rules for long-term businesses could create the sort of short-term incentives which have proven to be so destructive in the run up to and during the crisis by fuelling the boom and exacerbating the downturn, respectively. From an insurance perspective, *Stansfield* argues that the notion of marking assets to market is somewhat hard to reconcile with the long-term character of insurance liabilities, a mismatch which can cause major distortions to the insurance industry’s financial reporting.

Heavy-handed intervention in business models needs to be avoided
Voser says that, as a businessman, he still has faith in the free market’s ability to serve society. In his view, a good regulatory framework sets clear rules and offers credible, effective mechanisms to enforce these rules, while at the same time enabling the market to unleash its value-creation and innovation potential. *Bosse* warns that the risk of overregulation needs to be carefully managed. In her view, excessive regulation will reduce innovation and the motivation for growth and this could in the longer term work against an effective asset allocation and market expansion for the financial markets. *Wellershoff* expects that customers will have the most significant influence on future business models in finance. They want simpler and more transparent products. Financial services companies will respond accordingly, he believes. *Liedtke* also suggests that markets and their sanctions are the most effective regulators of business models. He forcefully calls for entrepreneurial freedom to be maintained. But this comes with the obligation for management to exercise judgment, rather than allowing models to take over thinking, he stresses. *Emmott* believes that we are witnessing a “back-to-basics” movement, with simplification combined with enhanced transparency and disclosure being the name of the game, adding that this development is largely driven by shareholders and customers, not by governments.

Corporate governance regulations must be stepped up
Fehr calls for increased public intervention in corporate governance. The fundamental economic case rests on the free rider problem associated with corporate governance: an individual shareholder may have no incentive to press for specific improvements in corporate governance (e.g. the protection of

minority shareholders and constraints on compensation schemes), as the benefits would accrue to all shareholders—irrespective of their individual efforts and respective expenses incurred. In *Emmott's* view, the main challenge in the area of corporate governance is to make Boards of Directors less "clubby and cosy" to promote dissenting behaviour. *Liedtke* warns against establishing a legalistic compliance culture supplanting individual values. Not everything that is done according to the rules is necessarily right, he says. *Stansfield* puts forward a specific proposal to strengthen corporate governance: The establishment of a risk committee of the board of directors to focus specifically on enterprise risk management, separate and apart from the audit committee.

Regulation must reflect the realities of globalisation
Liedtke believes that the crisis suggests two main regulatory lessons: first, the introduction of a truly global approach to regulating institutions which span the world and second, the establishment of a systemic risk regulator. *Bosse* also advocates new regulatory frameworks where risk and risk management are given a higher priority and where globalisation dynamics are properly taken into account by regulators and supervisor. *Stansfield* agrees. He also calls for more regulators with a private sector experience in order to cope with the dynamics of product innovation and complexity.

V. RESTORING TRUST IN THE FINANCIAL MARKETS: INTERVIEW WITH THOMAS STREIFF, CEO OF THE SUSTAINABILITY FORUM ZURICH

The financial crisis: what went wrong and what lessons should be learned?

In September 2009, The Sustainability Forum Zurich (TSF) held its annual flagship event, The International Sustainability Leadership Symposium, which this year was entitled "Restoring trust in the financial markets – time to think sustainably". Prior to the event, Dr Kai-Uwe Schanz, Principal Partner at Schanz Alms & Company, authored a discussion paper aimed at stimulating debate at the symposium. Below, Dr Schanz interviews Thomas Streiff, CEO of The Sustainability Forum on recent markets turbulence and the nature of The Sustainability Forum. The interview is connected to the summary version of the discussion paper which is reflective of the views of Christine Bosse, CEO TrygVesta; Ernst Fehr, Professor, University of Zurich; Bill Emmott, former Chief Editor, The Economist; Patrick M. Liedtke, Secretary General and Managing Director of The Geneva Association; George Stansfield, Group General Counsel, AXA; Peter Voser, CEO, Shell and Klaus Wellershoff, former chief economist, UBS.

Kai-Uwe Schanz: *How does the topic of this year's Symposium fit into the TSF's brief?*

Thomas Streiff: *We believe that financial and capital markets are key enablers of economic, environmental and social sustainability. Therefore, we strive to prepare business leaders in the financial sector for the risks and opportunities produced by the dynamics of globalisation. TSF has set itself the strategic goal to promote the capacity of business leaders and companies to forecast future developments, reflect on them and take action. The Symposium on "Restoring Trust in the Financial Markets" is meant to challenge mind-sets in this way: we wish to demonstrate that, post-crisis, the financial sector is capable of regaining stakeholder trust—based on a long-term oriented and responsible business conduct. In brief, sustainability goes far beyond "ecology" or just being "green"—it is about "being fit for the future" through new ways of doing business.*

KUS: *Where do you see the main reasons for the financial crisis and the resulting collapse of trust in financial markets and services providers?*

TS: *Simply said, I think that the financial markets were getting too complex, not only for the old-age pensioners, the average depositors and the "lay" investors, but also for many of the professional players and intermediaries. I have the impression that the majority of the members of the board of directors of financial sector companies are neither competent nor independent enough to fulfil their duties in supervising executives' decisions. In addition, some—if not even many—financial institutions made full use of the latitude provided by the regulatory frameworks and were able to externalise major* *risks and the associated costs. We would have expected that internal mechanisms should have kept major players from incurring existential risks. The tendency to "go with the trend" amplified this undesirable development because often decisions were (and will be) made out of peer pressure and were not based on robust information.*

KUS*: In your view, what needs to be done to move financial markets to a more sustainable model and prevent a repeat of the most recent dislocations?*

TS*: Dislocations—or better said turbulences—in the financial markets and the economy in general can hardly be prevented as they are inherent in any dynamic system. However, the magnitude of the turmoil—as we presently experience (and it is likely that we have not yet reached its peak)—could have been much lower if financial market players had carried out their assigned responsibilities. For instance, rating agencies need to be fully independent; fiduciaries should ascertain that their decisions are in the best interest of their clients; risk committees—apart from the audit committees—should be established at supervisory board level to focus specifically on enterprise risk management. In general, financial literacy should also be markedly improved at the investor level. In the case of pension funds, we include the ultimate beneficiaries, the savers, in our definition of "investors". Both on the regulatory and on the company level, we now have a unique chance to put the train onto the rails of transparency, long-term orientation and fairness. Once regulatory arrangements have been made in the direction of improved risk management, we will see the alignment of internal incentive structures with long-term business objectives, and—above all—a revitalisation of corporate values. Companies have to demonstrate that their business models are serving societal needs in order to regain and maintain stakeholders' trust.*

KUS: *Talking about the insurance industry: how do you think insurers and reinsurers can contribute to promoting the notion of sustainability in financial services?*

TS: *Insurance is geared towards assessing, reducing and transferring risks. Sustainability management is about identifying and coping with future economic, social and environmental challenges—risks and opportunities. Therefore, it can be seen as an extended level of risk management. This mindset can help the financial services sector to deal with many questions of our time, comprising systemic and structural risks of the financial markets, demographic change, poverty, the degradation of natural resources or climate change. Firstly, this requires better and stress-tested risk models which the insurance industry can share with its major stakeholders. Secondly, the insurers have to come up with more innovative solutions aimed at managing global challenges such as liability insurance solutions incentivizing responsible practices and behaviour, weather derivative and micro-insurance solutions for people living at the bottom of the pyramid.*

VI. SOLVENCY II – KEY ASPECTS AND THOUGHTS

By Patrick M. Liedtke

On 29 June 2009, The Geneva Association co-organised a seminar on Solvency II and its future implementation phase in Warsaw. This event looked closely at the new Solvency II framework directive, as approved by the European Parliament on 22 April 2009 and the key aspects that would influence the discussions around the implementation until 31 October 2012, when the new rules will come into force.

The following article is meant as a think-piece and commentary. It is based on my speech in Warsaw that addressed notable and critical issues concerning Solvency II. It aims to capture the dynamics of the Solvency II process and the discussions around it, by addressing some key issues that warrant closer attention. It also incorporates some remarks made by participants during the event and the reaction of the speakers.

Aspect: Solvency II will introduce economic risk-based solvency requirements across all EU Member States for the first time. These new solvency requirements will be more risk-sensitive and more sophisticated than in the past, thus enabling a better coverage of the real risks run by any particular insurer.

Comment: The move towards economic risk-based solvency requirements is a positive and necessary development. Solvency II will certainly be closer to the business reality than the current solvency regime(s). Having common requirements for all EU Members States will help the further emergence of a common market for financial products and services. At the same time, the Solvency II reform will have an important impact outside Europe as many other countries are already modelling their new solvency reforms on the European solution or are considering doing so.

Even before the directive was approved, the reform has had a tangible impact: among the business community, the discussion only around Solvency II has lead to more risk sensitivity and improvements in risk management, especially in smaller and middle sized firms. However, the new regulation carries a price, as it is a system that will require massive investments, both in human and financial resources, in order to get it fully implemented, and later when it needs to be managed in a continuous manner. The sophistication and the increase in complexity do not come free, especially if directly compared to the rather simplistic approach of the current solvency regime.

In this phase, the devil is in the detail, as not all aspects of the reform are clear, with the directive providing the top-level guidance but not all specifications, which will have to be defined during the next phase. This phase needs to end well before the 2012 implementation date so that all parties—insurance companies, supervisors, investors, rating agencies, auditors, etc.—can get used to the new system.

Aspect: The new requirements move away from a crude "one-model-fits-all" way of estimating capital requirements to more entity-specific requirements.

Comment: An entity-specific profile should improve supervision, reduce possible regulatory arbitrage and contribute to more financial stability. However: no regulatory system can fully avoid regulatory arbitrage. This arbitrage potential is often directly correlated with the density and the complexity of a regulatory framework. It also tends to be higher for new systems, as they possibly introduce undesired secondary effects or display unintended consequences. In this respect, Solvency II and its higher complexity might pose a problem. Especially the entity-specific requirements could open the door for abuses to the system and lead to a shift of capital, not for economic reasons, but to take advantage of the new rules and their idiosyncrasies.

At this point in time, Solvency II is not fully consistent in its approach to entities, especially when these are parts of larger groups/ holdings and when notable trans-border activities exist.

Aspect: Solvency requirements will be more comprehensive than in the past. Current EU solvency requirements concentrate mainly on the liabilities side (i.e. insurance risks), Solvency II will also take account of the asset-side risks. The new regime will be a "total balance sheet" type regime where all the risks and their interactions are considered.

Comment: The move towards a total balance sheet approach is more consistent with the economic realities of insurance operations. The 11 September 2001 disaster and the current crisis have shown how important a comprehensive approach to risk exposures across the balance sheet is. An intelligent understanding of how asset-side and liability-side risks affect the solvency position of an insurer can only be derived from a consistent (and the economic realities of insurance respecting) accounting framework: here a lot of work still needs to be done and the IASB will especially have to develop rules that not only provide technical solutions to insurance accounting issues, but reconcile financial reporting with the business realities, while at the same time being consistent with Solvency II prescriptions.

Aspect: Insurers will now be required to hold capital against (a) market risk (i.e. a fall in the value of insurers' investments) (b) credit risk (for example when third parties cannot repay their debts), and (c) operational risk (for example risk of I.T. systems breaking down or malpractice)

Comment: These are all risks which are currently not covered by the EU regime. In this area, Solvency II is a real step ahead. Experience over the past years has shown that all these risk types can pose a material threat to insurers' solvency. Observing them and explicitly supervising how companies deal with them will improve their processes and reinforce financial stability. However, a lot now depends on the future implementation. If, particularly given the current environment, the mantra becomes "*a lot of capital is good but more capital is better*", then all three risk groups allow for increasing capital deployment, hence reducing the efficiency at which risks can be covered for insurance clients. The EU officially states that the new regime also emphasises that "*capital is not the only (or the best) way to mitigate against failures*". Nevertheless, recent reactions from some groups of insurers, such as the companies organised in the Association of British Insurers, have forcefully raised the issue of possibly large capital increases that might be necessary for them to comply with the new rules.

Aspect: The new solvency system will adopt a more prospective focus. It will also introduce the new "Own Risk and Solvency Assessment" (ORSA)

Comment: Whereas at the moment solvency requirements are based on largely historical data, the new rules will require insurers to also think about any future developments, such as new business plans or the possibility of catastrophic events which might affect their financial standing. The move away from historical data is also a move away from clearly identifiable and objectively verifiable data. More discretion will have to be exercised and subjectivity is introduced into the equation. ORSA pushes firms to deal in more detail with their own risks. The cost-benefit ratio of this should be positive. It will also lead to a deeper penetration of advanced risk management practices into the market. ORSA, however, is also likely to be at the root of a series of conflicts between different parties: supervisors, insurance firms, auditors, rating agencies, etc.

Aspect: The new rules require insurers to disclose certain information publicly to a far greater extent than is currently the case.

Comment: This should bring in "market discipline", which will help to ensure the soundness and stability of insurers, as market participants will be able to process more information about insurers and offer greater potential for competition. However, increased disclosure comes at a cost: for preparers, as they will have to spend more resources on it, as well as for consumers (of the information) that will have to process all the additional information. If the right balance can be found then, in efficient markets, insurers applying "best practices" are going to be rewarded by lower financing costs and better reputation.

Nevertheless, on a company level, any disclosure requirement inevitably results in firms worrying about their trade secrets. It is very likely that the next two years will see more discussions around what exactly has to be disclosed, to whom, and in which way.

Aspect: The EU believes that the new framework will strengthen the role of the group supervisor. He is meant to have specific responsibilities to be exercised in close cooperation with the solo supervisors.

Comment: In theory, this means that the same economic risk-based approach will be applied to insurance groups which can now be better managed as a single economic entity. In practice, this goal has not fully materialised in the approved directive. While the new solvency provisions will foster and force greater cooperation between insurance supervisors and will promote supervisory convergence, they stop short of a coherent, comprehensive and integrated supervisory treatment of insurance groups in all of the EU, let alone for those transcending the boundaries of this economic area. The home-host supervision issue is still on the table and diversification benefits across international groups are going to be less than they should be from a purely economic point of view. Nonetheless, it should be noted that it will fall to the IAIS to advance global group supervision, ideally in a way that is fully compatible with Solvency II.

Aspect: There are some key EU expectations: ensuring uniform and enhanced level of policyholder protection across EU; reducing the likelihood that policyholders lose out if insurers get into difficulties; creating a more robust insurance system and greater policyholder confidence; generating downward pressure on prices, stimulating product innovation to give consumers more choice.

Comment: Solvency II will increase competition, especially for mass retail lines of business, such as motor and household insurance. There will be (and arguably already has been) a noticeable market impact and some consolidation in the sector. However, the much feared market cleansing of SMEs will not take place. The designers of Solvency II have been careful in avoiding too much competitive pressure and thresholds that would kill off many (smaller) companies. The cross-border impact will be less than its potential, mainly due to low diversification benefits and rules affecting capital deployment in different jurisdictions. Downward pressure on prices will depend on how the new rules will be implemented and executed, especially with respect to capital charges (currently, some appear high, for example for long-term equity investments).

Aspect: Insurers need to demonstrate that they have sufficient in-house expertise or access to risk management and actuarial expertise.
Comment: In practice this means—as has already happened in recent years—that insurers will upgrade and expand those two areas. This will continue to result in more demand for human resources with expertise in risk management and actuarial functions. It will also spark more demand for consultancy services in these areas to compensate for a possible lack of in-house competency or availability. The same increased demand holds true at the supervisory bodies, as they will have to adapt in similar ways to the new Solvency II regime.

Aspect: The Solvency Capital Requirement (SCR) is based on a Value-at-Risk (VaR) measure calibrated to a 99.5 per cent confidence level over a one-year time horizon.
Comment: Given the complexity and variation of insurance business and the diversity of time horizons that are relevant for certain risk classes, this is not the optimal solution.... but it is a very good and above all workable solution. Future reforms of Solvency II will look at this central formula and wonder how to improve the VaR approach, possibly choosing a variable confidence level depending on business underwritten, trying to improve the dynamics over an underwriting cycle, and abandoning a singular focus on the one-year time horizon (at least) in those instances where the risk function is clearly of a much longer time span.

Conclusions
Solvency II is without doubt a far-reaching reform with global impact. It is an important step in the right direction, but it is not the ultimate solution. It will see modifications—especially as the global financial regulatory and supervisory landscape is being greatly remodelled following the financial crisis.
There is a general tendency to underestimate the market impact of larger regulatory changes. Hence it is important not to rush forward with too many additional changes at once. There must be careful planning and detailed discussion with the insurance industry and other key stakeholders on the likely impact of specific requirements. The field testing of many aspects of the solvency reform (before the directive was adopted) was very productive and appreciated by all parties, especially since they uncovered a series of potential problems early in the process.
There are three things to be said about regulatory reforms:

1. Overly lax regulation results in huge direct cost through bankruptcies, other economic and social damage and possible financial instability.
2. Overly restrictive regulation results in huge indirect costs through increased expenses, decreased efficiency and underdeveloped market potential.
3. Overly complex regulation is costly and less effective, as it is harder to monitor and enforce and carries a higher risk of “malfunction”.

We hope that the responsible actors will get the balance right before 2012.

VII. EMERGING FROM THE STORM: THE DAY AFTER TOMORROW FOR INSURANCE[16]

Drawing on input from a range of leading insurers, financial market participants and PricewaterhouseCoopers specialists from around the world, *Emerging from the storm: The day after tomorrow for insurance* examines how the financial crisis is set to reshape the industry as a whole, along with some of the key developments that are likely to affect particular segments and geographical markets.

This report begins by charting the immediate impact of the crisis (the world “today”) and how the current scepticism and uncertainty are likely to mould stakeholder expectations going forward (the world “tomorrow”). The main section looks at how the industry landscape will look in the aftermath of the crisis and how this will determine the strategic choices facing insurers over the next three to five years (the “day after tomorrow”).

The insurance industry landscape that emerges from the turmoil of the financial crisis is set to be markedly different from today, enabling some insurers to pull ahead from their competitors and leaving others at risk of being left behind.

[16] Extracts reprinted with kind permission from PricewaterhouseCoopers.

The financial crisis has already proved to be a watershed for the insurance industry in many parts of the world. What customers, investors, governments and regulators expect from insurers is changing rapidly and pervasively and the developments we see today are only the beginning. The environment will continue to evolve at a rapid pace over the next two to three years, ruling out any return to the relative stability and certainty that preceded the crisis.

This shake-up will challenge the competitive relevance of some insurers. However, it also offers agile and farsighted firms a once-in-a-generation opportunity to catapult themselves to the front of what will be a very different racing order within many geographical markets and classes of business—as Rahm Emanuel, White House Chief of Staff, has said: *"Don't waste a good crisis".* The companies that will come through strongest are not just looking at how to stabilise their businesses today and even tomorrow, but how the crisis will shape the competitive environment that emerges in the "day after tomorrow" and what they need to do to adapt and succeed.

This report examines how the financial crisis will change the industry landscape and the key considerations this presents for insurers. We believe the main features of this new environment can be summarised as follows:

1. **Organic restructuring:** As insurers withdraw from some of their geographical markets and scale back particular lines of business, the market shares and opportunities for those that remain will sharply increase, leading to a significant reconfiguration in the list of leading players.
2. **The end of innocence for retail investors:** What customers demand from savings and investment products and how they want to buy them will take a new direction within many territories, with companies that are slow to catch on becoming increasingly irrelevant.
3. **Reawakening of M&A:** The strong underlying rationale for consolidation and restructuring within many markets means that acquisition activity is set to accelerate rapidly once valuation parameters are stabilised and funding becomes more readily available again.
4. **Another rethink on reporting:** Without an industry consensus on a genuinely relevant, intelligent and comparable basis of accounting and disclosure, insurers will find it increasingly difficult to compete for capital.
5. **Blurring the lines:** The relationship between the public and private sector will change as governments exert a stronger influence over the insurance market as a result of bailouts, regulatory reform and greater control over pensions and health care.
6. **Overhaul of rewards:** Insurers will base much more of their performance-related pay on risk-adjusted measures, aligned to their business strategy. They will also face tougher regulation over how compensation is governed.
7. **Mounting uncertainty over tax:** Amid moves to increase tax revenues and tighten the tax rules on offshore business, the stability of the tax regime will be a key consideration in possible relocation, as will choosing where to domicile and where to do business.
8. **Challenging prospects for reinsurers:** While demand for reinsurance is likely to increase within emerging markets, this is unlikely to offset the decline in reinsurance buying in developed markets and may force many reinsurers to rethink how they sustain profitability and growth.
9. **Tilting the regulatory playing field:** Under pressure from governments, supervision will be more intense and regulations will be more subject to national priorities in their interpretation and application.

If you asked an insurance executive in 2007, "What are the key developments shaping your industry?" most would have cited at least some of the longer term themes listed below. These underlying trends have not gone away and some have been accelerated by the financial crisis. However, as insurers survey the immediate impact of the financial equivalent of a major hurricane, more pressing concerns have come to the fore. The market and economic environment in which insurers operate is subject to considerable uncertainty. Success will depend on close monitoring of developments and the ability to move quickly to capitalise on opportunities as the situation becomes clearer.

Short-term themes sparked by the financial crisis

Longer term themes

Globalisation

Demographics

Longevity

Regulation

Technology

Climate change

Pandemic

Many organisations have strategies based upon a view of the world arising from what may now be an outdated understanding of what is driving change in the insurance industry

Monetary vacuum	The process of deleveraging that followed the bursting of the asset price bubble has yet to run its full course and there is still deep uncertainty over how to deal with the continuing downturn and the massive levels of distressed assets. This upheaval and uncertainty have created a monetary vacuum in which finance is constrained and much of the economy remains frozen. Immediate considerations include where best to concentrate limited capital and what areas to discontinue or divest to create a more streamlined and controllable business. Looking ahead, the ability to make sense of and respond to the uncertainty will distinguish the insurers who truly manage to capitalise on the crisis.
Classic renaissance	Heightened risk concerns and the need to rebuild balance sheets have encouraged many insurers to adopt more cautious investment strategies and refocus on their core competencies. This “back to basics” approach is especially noticeable among some of the firms that were seen as leading the way in risk modelling and strategic innovation prior to the crisis.
Lack of trust and transparency	The financial crisis has dented confidence in financial services businesses, including insurers. This clearly threatens the viability of a sector that depends on policyholders’ faith in providers’ willingness and indeed ability to pay out following insured events ranging from fire and accidents to retirement and mortality. As many pension and investment customers see the value of their policies fall, some have inevitably questioned whether the charges were justified and whether the investment returns reflected the true level of risk. Among capital providers, a perceived lack of transparency by insurers has heightened the downturn in share values and added a risk premium to the cost of capital.
“Never again” regulation	The response to the crisis has varied from country to country, which has created uncertainty for global insurers. Many governments and supervisors have responded to the volatility in the markets by relaxing solvency margins and/or the rules on marking down assets in the short term as they seek to avoid the downward spiral in confidence that has faced many banks. However, these emergency expedients cannot last indefinitely. Supervisors will follow investors and rating agencies in insisting on more open disclosure, more demonstrably effective risk management and increased capital buffers as they seek to guard against a repeat of the recent turmoil. Tougher regulation in areas such as compensation is also beginning to spill over from banks.
Government “inside the tent”	Several leading insurers have required government finance, part of the price of which is closer political scrutiny and influence over strategy and compensation. Even companies that have not required bailouts are facing pressure to modify their behaviour as governments increasingly call the shots over regulation. Immediate challenges include balancing the need to restore profitability with the heightened government scrutiny and expectations of being a responsible corporate citizen. Some companies are also concerned that government support for some of their competitors could distort pricing and impede the takeover/withdrawal of weaker entities.
Unprecedented fiscal pressure	Having committed significant resources to stabilising the financial services sector, cash-strapped governments are set to exert strong moral pressure on businesses to pay their “fair share” of tax. The fact that most of this support was aimed at banks will not save insurers from scrutiny, with a particular focus on tax planning and tax haven operations.
Rising power of the emerging economies	The crisis has accelerated the shift towards multi-polar economic power and influence, developments which have been highlighted by the emergence of the G-20 as a key driver of global economic policy. As international companies divest offshore holdings and withdraw to their core markets, there will be acquisition opportunities and market openings to enable local firms to strengthen their position.
Dealing with the downturn	The insurance industry continues to grapple with the economic downturn set off by the financial crisis. All companies have been forced to rein in on cost and many are now reassessing their operational model amid the pressure on premiums, capital, asset returns and compliance costs. Life insurers in many of the more mature markets have already seen a sharp fall in demand for savings and investment products and could face further asset price volatility and loss of business as a result of an adverse range of inflation and deflation scenarios. Non-life insurance is generally non-discretionary and therefore the impact of the downturn has been less marked. However, the falls in investment returns have necessitated tighter underwriting discipline and, where feasible, higher premiums. The sector has also seen a rise in problems associated with recession such as increased fraud and claims frequency.

The financial crisis has come as an unwelcome jolt for customers, investors, regulators and governments, creating scepticism and uncertainty and spurring stakeholders to take a harder line with insurers, particularly in relation to risk. How might the shifts in expectations of different stakeholders affect strategies?

- **Customers:**
  The faith of customers who believed that returns would keep coming, and the confidence in the financial institutions that appeared to be making this possible have given way to shock, disillusionment and caution.
  As wealth/capital has been reduced, the search for return has given way to uncertainty and risk aversion, which is encouraging cautious customers to pay down debt (deleverage), hold on to their cash and, if they are prepared to invest, favour simpler and less risky products. Another sign of customer disillusionment affecting life insurers in a number of countries is the sharp rise in mis-selling claims. On the non-life side, concerns over credit and counterparty risk have hastened a flight to quality among some customers, while others have sought to avoid concentration by spreading their business.
  Clearly, customers cannot batten down the hatches indefinitely; not least as the underlying drivers of growth, such as the ageing of the population or the search for more effective risk protection, will continue to exert a strong influence on demand. The key question is therefore on what terms customers will choose to reengage with insurers and how product/distribution strategies may need to change to encourage them back.
- **Regulators:**
  Under a strong lead from governments, the intensity of supervision is increasing. Indeed, some countries appear to be vying to be seen to have the toughest regulatory regime, starting from the top with a strong focus on governance and risk management. The crisis has also led to a review of mark-to-market valuation, which will impinge on the continuing development of accounting within the industry, including the search for an agreed IFRS for insurance contracts.
  However, how these developments are applied in practice will differ quite markedly. While regulators were until recently believed to be "hunting in packs", the financial crisis has highlighted a divergence of approach. The limited international co-ordination of regulatory intervention could have unintended systemic consequences for insurers and a knock-on impact on financial markets. For example, changes in accounting standards and asset admissibility could affect insurers' levels of equity holdings and other aspects of their investment strategies. The financial crisis has also highlighted the importance of the personalities at the helm in setting and applying policies. With so much depending on the people in charge, changes in key personnel can only heighten regulatory uncertainty. Although supervisors have been given further resources and political impetus by governments, it will take some time to build up the expected capabilities.
- **Investors:**
  The pursuit of innovation and capital efficiency has given way to a focus on stability and risk management, with phrases like asset leverage now seen as off- putting. Even once the initial caution generated by the losses of 2008 subsides, there is growing recognition among analysts and investors that risks are far more systemically correlated than previously thought. As a result, the cost of capital may remain high to reflect what market professionals now perceive as the true level of risk and the greater possibility of what were once seen as improbable and unrelated risk scenarios.
  Greater transparency and comparability of financial and risk disclosure will be critical in gaining access to a more limited supply of available capital. However, the absence of a relevant and globally consistent accounting standard for insurance contracts, and lingering concerns over the consistency of embedded value methodologies and assumptions, continue to undermine market confidence.
- **Governments:**
  Although governments are eventually likely to divest their direct holdings in supported insurers, their influence across the sector will persist. Some governments will continue to offer insurance substitutes such as trade credit schemes, in addition to tariff setting and being the insurer of last resort in some higher risk markets such as the Florida coast. This can create competitive distortions and impede market development and once in place can be politically difficult to withdraw.
  Governments that have recapitalised parts of the insurance sector may insist that taxpayers should expect a more favourable deal from the industry. There will also be considerable debate

about the implicit capital underpinning of being considered "too big to fail" and the increased shareholder exposure for those that are not. In normal circumstances, weak companies go under, but in this new environment they may be propped up by government guarantee and a resulting competitive distortion.

The financial crisis will continue to reshape the competitive and regulatory environment within the insurance industry over the next three to five years. As we set out in the nine key developments and their strategic implications, the landscape that emerges in the aftermath of the "storm" will present both transformational opportunities and significant threats for businesses that fail to anticipate and adapt to the changes ahead.

The shake-up within the insurance industry is taking place against the background of a highly volatile economic environment. There is continuing uncertainty over how the various different demand, inflation, stock market and budget deficit scenarios will play out and interact. Insurers should plan how to respond to significant shifts in the variables when developing their strategies. Focusing on markets most affected by the financial crisis and its fallout, the report outlines various scenarios, how they could interact and the potential impact on insurers. The most marked break from the past is the mounting budget deficits in many countries, which will lead to a combination of higher taxes, lower public spending and increased inflation risk. Reductions in public spending are likely to lead to a scaling back of state health and pension provision and create valuable opportunities for insurers.

The direct impact of the crisis has been more limited in leading emerging markets such as China and India. Developing domestic consumer demand and trade between emerging markets will help to offset falling business in the EU and U.S. and will continue to provide important growth opportunities for insurers.

As insurers withdraw from some of their geographical markets and scale back particular lines of business, the market shares and opportunities for those that remain will sharply increase, leading to a significant reconfiguration in the list of leading players.

The complete report is available from PricewaterhouseCoopers at www.pwc.com/dayaftertomorrow.
We thank Ian Dilkes of PricewaterhouseCoopers for his kind support.

SPECIAL ISSUE OF THE GENEVA PAPERS

The Geneva Association is pleased to announce a special half issue on

Insurance and the Credit Crisis

of

The Geneva Papers on Risk and Insurance – Issues and Practice

January 2010

This special issue will cover the areas of:

- Analysis of the impact of the credit crisis on insurance companies: regional, by business line, by type of company (mutual, plc, integrated financial player, etc.);
- Lessons to be learned from the crisis for insurance operators: in finance, in risk management, in strategic orientation, in governance, etc.;
- The consequences of the crisis for insurance supervision and regulation: specific insurance regulation and supervision as well as wider norms for financial services;
- The possible changes in the competitive landscape following the crisis: within the insurance sector and in respect to other financial services providers;
- The consequences of the crisis on risk transfer mechanisms such as reinsurance, retrocession and insurance securitisation.

You will find information on subscribing and downloading this issue of *The Geneva Papers* at the following address: *http://www.palgrave-journals.com/gpp/subscribe.html* .

For further information on this special issue, please contact Samantha Solida at *samantha_solida@genevaassociation.org*.

VIII. NEW REPORT ON "FIDUCIARY RESPONSIBILITY" BY UNEP FI

A new report by the Asset Management Working Group of the United Nations Environment Programme Finance Initiative (UNEP FI) looks at legal and practical aspects of integrating environmental, social and governance issues into institutional investment.

The report is called *Fiduciary II* and can be downloaded from:
http://www.unepfi.org/fileadmin/documents/fiduciaryII.pdf.

One of the more effective documents for promoting the integration of environmental, social and governance (ESG) issues into institutional investment has been the "Freshfield Report" published in 2005, which the UNEP FI Asset Management Working Group (AMWG) commissioned from Freshfields Bruckhaus Deringer, a leading international law firm.

Freshfields covered nine jurisdictions (i.e. Australia, Canada, France, Germany, Italy, Japan, Spain, the U.K. and the U.S.) and concluded that *"…integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions."* This clear conclusion has served to clarify the legality behind the consideration of ESG issues with respect to pension funds, insurance company reserves and mutual funds, as well as foundations.

In the four years since the launch of the original Freshfields Report by the AMWG, there has been more innovation and evolution in the field of ESG integration than in any other similar time span in history. Perhaps the most significant development in this time period was the launch of the Principles for Responsible Investment (PRI) in 2006 by then UN Secretary-General Kofi Annan. Now, with over 550 signatories from the institutional investment community, including many of the world's largest pension funds, collectively representing approximately US$ 18 trillion in assets under management, the PRI is helping to identify best practices among investors.

The latest UNEP FI/AMWG report, termed *Fiduciary II,* serves as a sequel to the Freshfields Report by providing a legal roadmap for fiduciaries looking for concrete steps to operationalise their commitment to responsible investment. It has three major elements:

1. The first part is an exploration of the legal perspective on how best to operationalise the integration of ESG issues into the investment process, particularly with respect to investment mandates and investment management contracts.
2. The second part is an analysis of responses to a pioneering survey questionnaire sent by the AMWG to investment management consulting firms, covering ESG issues as they relate to various aspects of the investment management process, including legal language. The questionnaire can be found in its entirety in Appendix C.
3. The third part is a literature review that focuses on practical developments on the integration of ESG issues into the investment process, providing insights into the extent to which institutional investors have adopted, and can adopt, longer-term and more sustainable investment approaches. In addition, the literature review covers legal developments on fiduciary duty and ESG issues since, and including, the Freshfields Report.

The Geneva Association has been collaborating with the UNEP FI for several years in an informal but continuous manner and has tackled the ESG issues and investments for the insurance in various of its internal and external fora. It supports discussions on the record and analysis of integrating environmental, social and governance issues into institutional investment.

IX. 6TH INSURANCE AND FINANCE SEMINAR OF THE GENEVA ASSOCIATION

14-15 December 2009

Hosted by Lloyd's of London

Venue: Old Library, Lloyd's, London

(Draft version as of 2.9.2009)

Day 1: Monday 14 December 2009

8:30 – 9:00	Registration and coffee
9:00 – 9:15	***Welcome and Opening Remarks***
9:15 – 9:45	***Opening Address***
9:45 – 11:15	***Session 1: Post-crisis Insurance Operations—The CEO Perspective***
11:15 – 11:45	Coffee Break
11:45 – 13:15	***Session 2: Financial Challenges to Insurance—The CFO Perspective***
13:15 – 14:15	Networking Lunch
14:15 – 15:45	***Session 3: Solvency II – Current Developments, Contentious Issues and International Impact***
15:45 – 16:15	Coffee Break
16:15 – 17:45	***Session 4: Shareholder Expectations—Is the Risk-Reward Function of Insurance Still Appealing?***
17:45 – 18:00	**Wrap-up of Day 1**
as of 18:15	Cocktails at Lloyd's, in front of Adam Room
18:45	Dinner at Lloyd's, Adam Room—Dinner speech by **Richard Ward**, CEO, Lloyd's

Day 2: Tuesday 15 December 2009

8:50 – 9:00	***Welcome and Introduction***
9:00 – 9:30	***Opening Address***
9:30 – 10:00	***Special Keynote Address*** *from the IASB*
10:00 – 11:30	***Session 5: IASB Developments and Financial Reporting—Latest Insights and Industry Comments***
11:30 – 11:50	Coffee Break
11:50 – 13:20	***Session 6: Financing Large Risks—New Challenges for Insurance, Reinsurance and Securitisation***
13:20 – 14:10	Lunch
14:10 – 15:40	***Session 7: Financing Retirement—Capital Requirements for Insurance Solutions***
15:40 – 16:00	**Concluding Comments**
16:00	**Seminar Close**—Coffee and Networking

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X. CONFERENCES ORGANISED AND/OR SPONSORED BY THE GENEVA ASSOCIATION

2009

September

3-5	St. Gallen	**World Ageing & Generations Congress.** Three sessions organised by the Silver Workers Institute (The Geneva Association)
14-15	London	**7th Meeting of The Geneva Association's Chief Communications Officers**, hosted by Prudential
21-23	Bergen	**36th Seminar of the European Group of Risk and Insurance Economists (EGRIE)**
28	Warsaw	**New Instruments of Consumer Protection in Motor Insurance,** co-sponsored by The Geneva Association

October

16	Rome	**AXA/MPS Vita Forum,** organised by AXA/MPS and The Geneva Association
19-20	Bogotá	**The M.O.R.E. 23 Seminar on Climate Change and its Economic Impact on Insurance**, hosted by Suramericana de Seguros
26-27	Zurich	**6th Liability Regimes Conference**, hosted by Swiss Re

November

11-12	Rüschlikon	**5th CRO Assembly,** jointly organised with Swiss Re
26-27	Warsaw	**6th Health & Ageing Conference – Development of Health and Long-term Care Insurance in Central and Eastern European Countries**, jointly organised with PZU

December

14-15	London	**6th International Insurance and Finance Seminar of The Geneva Association**

2010

January

13	New York	**Joint Industry Forum for P&C Insurance Industry,** co-sponsored by The Geneva Association

February

tba	Amsterdam	**12th Meeting of the Amsterdam Circle of Chief Economists,** hosted by ING *(ACCE members only)*

March

22-23	Singapore	**10th Asia CEO Insurance Summit** co-organised by Asia Insurance Review and The Geneva Association

April

15-16	Montreux	**26th PROGRES Seminar on Insurance Regulation and Supervision**

June

2-5	Zurich	**37th General Assembly of The Geneva Association** *(members only)*
6-9	Madrid	**The Geneva Association/IIS Research Award Partnership**

July

25-29	Singapore	**World Risk and Insurance Economics Congress (WRIEC)**